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**Living Well** on One Income

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# Mani-Pedi or Mortgage?

## Once you invest in yourself instead of your insecurities, money management becomes a breeze.

*By* BELINDA FUCHS

AVA WAS ON a mission to fool people, and she almost fooled me, too. She had everything going for her – or so it seemed. At 33, she was an accomplished software sales manager with a six-figure salary and, she told me right off the bat, a lawyer boyfriend. She drove to my office in a shiny Prius. Her nails were done. Her hair was highlighted. Her bag was designer. You'd never guess that she was awash in credit-card and college-loan debt and saddled with a condo mortgage she could barely pay.

Her financial obligations included $18,000 in credit-card debt at high interest rates and $35,000 in student loans at 6 percent. "I can never get a handle on my debts, and watching the news or reading the paper sends me into a panic. I live in fear that the bank will tie my condo to a tractor trailer and tow it away if they don't get their money on time," she told me. Worse yet, she found herself sticking with her boyfriend not just because she loved him (which she assured me she did), but also because she thought it was the practical thing to do. "Life is so much easier for two-income couples," she told me. "My married friends are all relocating to the suburbs, and I can barely pay for my condo!" The picture wasn't totally bleak: Although she had minimal savings, Ava (not her real name) was

> ***"It is better to have a permanent income than to be fascinating."***
>
> – OSCAR WILDE

expecting a significant sales bonus. She contributed regularly to a 401(k) plan, she had solid insurance coverage, and her home was appreciating in value.

As a money coach, I've met plenty of Avas: She was fantastic at her day job but failing at finances. Despite her college education, Ava was clueless when it came to money management. Sure, she had learned some basics, like how to balance a checkbook and that a 401(k) is a good thing, but had no idea how to use money as a tool to realize her future financial dreams. Worse, she assumed that having a successful partner would automatically "rescue" her from financial ruin.

Ava and I planned to meet biweekly over the upcoming months. We agreed on a three-month plan, focused on changing her attitude toward money and improving her financial situation. Our first job was to separate Ava as a person from Ava's money issues. I taught her what it means to "own your money" – that by taking responsibility for her own success, getting financially educated, and articulating her dreams and believing they could come true, she could harness the power to actively create the life she wants. If she did it professionally, why not financially?

Of course, there was immediate work at hand, starting with her spending patterns and outstanding credit-card debt. We tackled these at a subsequent appointment. Based on cash receipts, bank statements, and credit-card statements, we mapped out where her money was really going. We discovered that too much money went toward keeping up appearances: fancy dinners out, new clothes, $5 lattes – which often resulted in overdrawn bank accounts and late fees. Now that Ava had a guiding vision for her future, she felt comfortable paring down her spending. She started passing on the daily Starbucks fix, bringing her lunch, and not going into stores unless she had a clear goal in mind. She kept closer track of her balances and stopped the overdraft fees. After one month, she'd reduced her expenses by $800. She also tracked down money owed to her, from HR-subsidized business expenses to gym fees reimbursed through her health insurance.

Then we examined that $18,000 credit-card balance. Ava was paying $600 in monthly minimums; at this rate, it would take at least 50 years to pay the debts off. We discussed her options, from the slow and steady current approach to debt consolidation. I reminded her of her year-end bonus, as well as a hefty IRS refund she was expecting. Why not use them to pay down debt instead of buying clothes? She agreed. The result: $5,000 in debt, not $18,000.

The next step was to lower her credit-card rates. It's not as tough as it seems. According to Synergistics

### *Money Myths*

**1. Buying a house means I'm financially secure.** Sure you're building equity, but only when you can keep up with the mortgage payments on your current income. Generally, housing costs – including taxes, utilities, repairs, and insurance – should account for 35 percent of your spending.

**2. It's only possible to be financially successful on two incomes.** Stop waiting around for a partner to sweep you into financial adulthood. Not only do you risk dating for the wrong reasons, you're putting off your own security.

**3. I'm responsible with my credit-card debt – I pay every month.** Not if you're just paying the minimum: Check the credit-card calculator at bankrate.com for your payoff timing. You may be shocked!

Research Corp., a market-research firm, 78 percent of credit-card holders who ask for a lower rate get it. (And if your credit score tops 720, don't be satisfied until your rate is less than 10 percent.) Once she reduced her debt, she had room against her credit line, which gave her bargaining power. Confident, Ava asked for a lower rate. She explained that she had been a long-standing loyal customer and was willing to go to a competitor or stop using the card unless she got a lower rate. She was offered a decrease from 19 to 12 percent and – after speaking with a manager – got an additional reduction to 9 percent. Using this strategy, combined with her decreased balances, Ava got decreases on an additional three cards for a total monthly savings of $425. Because she has budgeted intelligently, she can continue paying $600 monthly, and will now have erased her debt in less than a year.

Next up for Ava: refinancing her mortgage, consulting her financial adviser to more actively manage her 401(k), and using automated savings withdrawals to create a six months' savings cushion. Now that she doesn't have to worry about her finances, she's naturally more confident. "I feel like I own my money now; it doesn't own me," she told me at our last meeting. *And* she's no longer looking to her boyfriend as a financial savior. The take-away: Control your money. Don't let it control you. And that friend with the designer bag? She might not be as rich as you think.

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